

Written statement of a key decision
Cabinet

Title	Treatment of West Mercia Energy pension liability
Decision maker	Cabinet Information about cabinet, including the names and contact details of the cabinet members, can be found here: http://councillors.herefordshire.gov.uk/mgCommitteeDetails.aspx?ID=251
Date of decision	30 April 2020
Report exemption class	Open
Reason for being a key decision	This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.
A notice was served in accordance with Part 3 (Key decisions) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.	
General exception or special urgency (as defined in the constitution)	No
Purpose	<p>Herefordshire Council, together with Worcestershire County Council, Telford & Wrekin Council and Shropshire Council, is one of the member authorities (the 'Owning Authorities') of West Mercia Energy (WME) Joint Committee, formerly known as West Mercia Supplies. At the point of sale of the West Mercia Supplies stationery division (WMS) in 2012, the existing pension deficit relating to the former WMS staff was retained within the continuing WME business and is overseen by the WME Joint Committee.</p> <p>The West Mercia Energy Joint Committee formally approved a request to the Owning Authorities to take direct responsibility for this pension deficit liability on the 24 September 2019. Having undertaken discussions via their respective senior Finance Officers, the Owning Authorities are each seeking approval to take on this liability, which is proposed to be achieved by the transfer of this pension deficit to a newly created 'employer body' within the Shropshire County Pension Fund ('WMS Pension') managed and overseen by a new 'WMS Pension Joint Committee' comprising the same Owning Authorities</p>

<p>Decision</p>	<p>That:</p> <p>(a) Cabinet, on condition that the Executives of Worcestershire County Council, Telford & Wrekin Council and Shropshire Council agreeing to the same recommendations, agrees:</p> <ul style="list-style-type: none"> a. To remove the responsibility for the discharge of its function in relation to the pension deficit liability in relation to former WMS employees (including Compensatory Added Years Benefits) as identified in this report from the business of the WME Joint Committee with effect from 1 April 2020; b. To allocate the pension deficit liability identified in recommendation a above to a new employer within the Shropshire County Pension Fund, called ‘WMS Pension’; c. To establish a joint committee pursuant to section 101(5) of the Local Government Act 1972, with Worcestershire County Council, Telford & Wrekin Council and Shropshire Council known as the WMS Pension Joint Committee and delegate responsibility with effect from 1 April 2020 to the WMS Pension Joint Committee to discharge the functions of Herefordshire Council relating to the pension deficit liability from former WMS employees (including Compensatory Added Years Benefits) as set out in Appendix A allocated to the WMS Pension employer within the Shropshire County Pension Fund; d. To approve the proposed governance arrangements set out in Appendix A, and that the Council’s appointed Executive Members to the WMS Pension Joint Committee shall be the Leader of the Council and the current Council representative(s) on the West Mercia Energy Joint Committee; e. To delegate authority to the Chief Finance Officer (Section 151) to progress and agree the arrangements as set out in this report, including a relevant payment mechanism and finalise a Joint Agreement for the WMS Pension Joint Committee incorporating the terms set out in Appendix A, in consultation with Section 151 Officers from the remaining Owning Authorities. f. To approve the treatment of the WME asset share to be fully funded with effect from 1 April 2020 using IAS19/FRS102 actuarial assumptions

	<p>with the resulting additional cost of this funding option allocated to the WMS Pension employer within the Shropshire County Pension Fund.</p> <p>g. To delegate authority to the Chief Finance Officer (Section 151) to agree the final figures, of which estimates are set out in the resources implications section of this report, and in consultation with the Section 151 Officers from the remaining Owing Authorities.</p>
Reason for the decision	<p>As set out in the report. Documents relating to this decision are available at</p> <p>http://councillors.herefordshire.gov.uk/mglIssueHistoryHome.aspx?Ild=50033132</p>
Options considered	<p>1. In developing the recommended proposal, the Owing Authorities have considered alternative options with their respective merits and disadvantages as follows:</p> <p>a. Each authority could make a direct payment to Shropshire County Pension Fund to remove the pension deficit. This option was considered and discounted at the time of the sale of the WMS business due to the significant financial cost to the Owing Authorities. This opinion and position has not changed in the intervening years since the sale and is not considered value for money.</p> <p>b. The WMS pension liabilities and assets could be separated from the WME business and allocated in equal shares to the four Owing Authorities via the transfer of the liabilities and assets to the respective Local Government Pension Schemes that each Owing Authority participates in. In principle, 50% of these WMS liabilities and assets would be transferred to the Worcestershire Pension Fund, to become the financial responsibility of Worcestershire Council and Herefordshire Council. The remaining 50% being retained within the Shropshire County Pension Fund (but allocated to the employer's liabilities of Shropshire and Telford & Wrekin, rather than Shropshire on behalf of WME) and being the financial responsibility of Shropshire Council and Telford & Wrekin Council. An application (signed by the four Owing Authorities) to the Secretary of State for Communities and Local Government for a "Direction" could allow the transfer of the relevant proportion of WMS assets and liabilities (being the responsibility of Worcestershire County and Herefordshire Councils) from the Shropshire Fund to the Worcestershire Fund with the balance remaining in the Shropshire Fund (being</p>

	<p>the responsibility of Shropshire and Telford and Wrekin Councils). It should be noted that the original intention of these Directions was to allow the transfer between Funds of an employer's entire pension assets and liabilities, so there was no guarantee that the Direction would be granted for a partial transfer such as this. Calculations by the Shropshire County Pension Fund actuaries would determine a subset of members which make up (as near as practically possible) four blocks of 25% of the WMS liabilities. Formal agreement by the Worcestershire Pension Fund actuaries to the figures and proposed allocation of membership between the two funds would be required before transfer of appropriate pensioner payroll, membership records and asset share from the Shropshire County Pension Fund to the Worcestershire Pension Fund, and splits to the relevant employers. This option would have resulted in one off costs of up to £80,000 and included the risk that the Secretary of State would not approve the necessary direction. On the basis of the discussions between officers of the four Owning Authorities it is not recommended that this option is pursued as it does not represent value for money.</p>
<p>Declarations of interest (see below)</p>	
<p>Call-in expiry date (decisions are not subject to call-in where special urgency provisions apply)</p>	<p>6 May 2020</p>

<p>Councillor:</p> <p>Leader of the Council (Councillor David Hitchiner)</p>	<p>Date 30 April 2020</p>
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- a record of any conflict of interest declared by any executive member who is consulted by the member which relates to the decision;
- and
- in respect of any declared conflict of interest, a note of dispensation granted.